

Message Text

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SUBJECT: SUGAR NEGOTIATIONS: STOCK REQUIREMENTS ANALYSIS

1. INTERNATIONALLY CONTROLLED STOCKS OF 4.0, 3.5, 3.0, 2.5, 2.0, AND 1.5 MILLION TONS WOULD PROVIDE SIGNIFICANTLY DIFFERENT DEGREES OF CONSUMER PROTECTION DURING THE LIFE OF AN AGREEMENT. FOOTNOTE: FOR PURPOSES OF THIS ANALYSIS IT WAS ASSUMED THAT INTERNATIONALLY CONTROLLED STOCKS COULD BE VERIFIED, AND WOULD BE SEPARATED. END FOOTNOTE. AT TIMES WHEN PRODUCTION OR THE POTENTIAL FOR PRODUCTION HAVE EXCEEDED CONSUMPTION BY A SIGNIFICANT DEGREE -- STOCKS ARE ABUNDANT -- THE LIKELIHOOD OF AN EVENT SUCH AS ABNORMAL WEATHER OR CHANGES IN MARKETING POLICIES MOVING PRICES OUTSIDE THE X TO X PLUS TEN RANGE ARE RELATIVELY LOW. HOWEVER, A REPEAT OF THE HISTORICAL PRODUCTION CYCLE COULD WELL LEAD TO A SUPPLY-DEMAND BALANCE DURING THE LATTER HALF OF THE AGREEMENT WHICH COULD BE DISTURBED SUFFICIENTLY TO MOVE PRICES ABOVE X PLUS TEN IN THE ABSENCE OF A RESERVE STOCK.

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2. IN ANALYZING THE SIZE OF STOCKS REQUIRED TO PROVIDE PROTECTION AGAINST PRICES RISING ABOVE X PLUS TEN CENTS, AN ANALYSIS OF THE VARIANCE IN PRODUCTION OVER A 25 YEAR PERIOD WAS MADE. THIS ANALYSIS INDICATED THAT THE LIKELIHOOD OF PRODUCTION BEING EITHER ABOVE OR BELOW THE HISTORICAL TREND LINE BY MORE THAN 3.85 MILLION TONS IN A GIVEN YEAR IS POINT THIRTY-THREE. THE ANALYSIS ALSO SHOWED THAT

PRODUCTION HAS FALLEN SHORT OF CONSUMPTION FOR AS AMNY AS THREE YEARS IN A ROW. DURING THE 25 YEAR PERIOD REVIEWED, PRODDUCTION EXCEEDED CONSUMPTION 17 TIMES. AS A RESULT STOCKS WERE ACCUMULATED. WHEN RELEASED THE IMPACT OF PRODUCTION SHORTFALLS WERE MITIGATED.

3. WITH CONSUMPTION INCREASING AT A RELATIVELY CONSTANT RATE OF 2.1 - 2.3 MILLION TONS PER YEAR, ACREAGE AND/OR YIELDS MUST INCREASE AT A SIMILAR RATE IF PRICES ARE TO REMAIN RELATIVELY CONSTANT AND THE IMPACT OF SHORTFALLS REDUCED.

4. IN SUBJECTIVELY ASSESSING THE ABILITY OF DIFFERENT STOCK LEVELS TO COUNTERACT ADVERSITIES DURING PERIODS WHEN PRODUCTION AND CONSUMPTION ARE IN NEAR BALANCE, CERTAIN CONCLUSIONS WERE DRAWN.

5. A RESERVE STOCK OF 3.5 TO 4.0 MILLION TONS WILL PROVIDE CONSUMERS A REELATIVELY HIGH DEGREE OF PROTECTION AGAINST PRICES RISING ABOVE X PLUS TEN. AA STOCK OF 2.5 - 3.5 MILLION TONS WILL PROVIDE A REASONABLE DEGREE OF PROTECTION AGAINST ANNUAL VARIATIONS, BUT NOT AGAINST AN EXCESSIVE SHORTFALL IN ONE YEAR OR OF SMALLER SHORTFALLS OVER A PERIOD OF SEVERAL YEARS.

6. A STOCK OF 1.5 TO 2.5 MILLION TONS IS NOT EXPECTED TO HAVE A LARGE DAMPENING INFLUENCE IN INSTANCES WHERRE THE INCENTIVE FOR STOCK DIVERSIONS ARE GREAT.

7. TO THE EXTENT THAT COMMERCIALY HELD STOCKS ARE REDUCED LIMITED OFFICIAL USE

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IN RESPONSE TO THE ACUMULATION OF INTERNATIONALLY CONTROLLED STOCKS, THE DEGREE OF PROTECTION AFFORDED BY EACH LEVEL OF STOCK IS REDUCED. IT IS ANTICIPATED THAT COMMERCIAL INTERESTS WOULD LOWER THEIR STOCK LEVELS SOME, SINCE SOME OF THE RISKS OR POTENTIAL REWARDS, AS THE CASE MAY BE, WOULD BE REDUCED.

8. AN ASSESSMENT OF RISKS WOULD ALSO TAKE INTO ACCOUNT THE LOCATION AND ACCESS TO STOCKS IN EMERGENCY SITUATIONS. IF RELATIVELY INACCDSSIBLE, THE NEED FOR MAINTAINING LEVELS OF COMMERCIAL STOCKS NEAR EXISTING LEVELS WOULD BE GREATER.

9. CONCLUSION: STOCKS WOULD NEED TO BE ACCUMLULATED IN THE FIRST HALF OF THE AGREEMENT TO PROVIDE PROTECTION AGAINST POTENTIAL SHORTFALLS DURING EH LATTER HALF. AN EFFECTIVE SYSTEM OF VERIFICATION WOULD BE NEEDED TO REDUCE THE TEMPTATATION OF LEAKAGES AND TO ASSUME THAT ISO STOCKS ARE NOT BEING USED AS A PROXY FOR DEOMESTIC AND SPECIAL ARRANGEMENT STOCKS.

10. A STOCK OF 3.5 TO 4.0 MILLION TONS WOULD PROVIDE A HIGH DEGREE OF CONSUMER PROTECTION. A STOCK OF 2.5 TO 3.5 MILLION TONS WOULD PROVIDE AN ACCEPTABLE DEGREE OF CONSUMER PROTECTION IN INSTANCES WHERE MAJOR OR PROLONGED SHORTFALLS DO NOT OCCUR. FURTHER, STOCKS OF THIS MAGNITUDE NEED TO BE ABOVE AND BEYOND COMMERCIAL STOCKS. TO THE EXTENT THAT COMMERCIAL STOCKS WOULD BE LOWERED WITH CREATION OF AN ISO STOCK, THE DEGREE OF PROTECTION WOULD BE REDUCED.

11. THE PRESENCE OF 1.5 - 2.5 MILLION TONS WOULD PROVIDE A MODERATING INFLUENCE. ITS EFFECTIVENESS IN EXTREME SITUATIONS, HOWEVER, WOULD BE QUESTIONABLE -- ESPECIALLY IF THE TRADE HAD DISCOUNTED ITS PRESENCE IN THEIR STOCK AND MARKETING POLICIES. SORENSON

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